

Message Text

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PAGE 01 STATE 207724
ORIGIN EB-08

INFO OCT-01 ARA-10 EA-10 ISO-00 EUR-12 XMB-02 TRSE-00
SIG-03 OES-09 DOE-15 SOE-02 CAB-02 CIAE-00
COME-00 DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00
L-03 SY-05 MCT-02 NSC-05 AGR-01 AID-05 CEA-01
FRB-03 IO-13 NEA-10 ICA-11 OPIC-03 SP-02 LAB-04
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ALSO FOR USEC, ALSO FOR OECD

E.O. 11652: N/A

TAGS: ETRD, EFIN, EEC

SUBJECT: EXPORT CREDITS: US/EC CONSULTATIONS ON AIRCRAFT
AND LNG TANKERS

1. SUMMARY

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PAGE 02 STATE 207724

USG OFFICIALS FROM TREASURY, STATE, EXIM AND COMMERCE MET
WITH OFFICIALS OF THE EC AND MEMBER STATES (GERMANY,
FRANCE, UK, ITALY AND THE NETHERLANDS) ON AUGUST 3, 4 AND
7 PRIMARILY TO DISCUSS WAYS OF STRENGTHENING EXISTING
RESTRAINTS ON OFFICIAL EXPORT CREDITS IN SUPPORT OF
AIRCRAFT AND LNG TANKERS. USDEL WAS LED BY M. RYSS OF
TREASURY AND D. FURTADO OF EXIM. EUROPEANS WERE LED BY

PETER KLEIN OF EC COMMISSION AND PETER GEHRING, CHAIRMAN OF OECD EXPORT CREDITS GROUP. THE TALKS RESULTED IN A VERY FRANK EXCHANGE OF VIEWS BUT LITTLE SUBSTANTIVE PROGRESS.

2. AIRCRAFT

THE EUROPEANS STRESSED TIME AND AGAIN THE POLITICAL IMPORTANCE TO THEM OF DEVELOPING A COMMERCIAL AIRCRAFT INDUSTRY AND THE IMPORTANCE OF ACCESS TO THE US MARKET FOR THEIR PRODUCT. THEY ARGUED--ALONG "INFANT INDUSTRY" LINES--THAT AIRBUS INDUSTRY CANNOT YET COMPETE WITH THE

US AIRCRAFT MANUFACTURERS AND THAT UNTIL AIRBUS CAN STAND ON ITS OWN THE EUROPEAN GOVERNMENTS MAY HAVE TO ASSIST IT. THEY NOTED THAT US MANUFACTURERS HAVE BENEFITED FROM SUBSTANTIAL US GOVERNMENT ASSISTANCE (PRESUMABLY FROM DOD AND NASA). OF PARTICULAR IMPORTANCE TO THE EUROPEANS WAS THE FACT THAT US MANUFACTURERS CAN OBTAIN FROM PRIVATE SOURCES FINANCING WITH REPAYMENT TERMS (SAY, 15 YEARS) WHICH ARE GENERALLY UNAVAILABLE TO AIRBUS INDUSTRY. (THIS UNAVAILABILITY IS DUE BOTH TO AIRBUS INDUSTRY'S RELATIVE FINANCIAL WEAKNESS AND ALSO TO THE RELATIVELY LESS-DEVELOPED EUROPEAN FINANCIAL MARKETS.) THE EUROPEANS INSIST THAT THIS DISADVANTAGE MUST BE REMEDIED ONE WAY OR ANOTHER. THE US SIDE STRESSED DURING THE TALKS THE INTEREST BOTH LIMITED OFFICIAL USE

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PAGE 03 STATE 207724

SIDES HAVE IN TIGHTENING THE TERMS OF THE PRESENT AIRCRAFT "STANDSTILL." WE ALSO STRESSED THAT THE US CANNOT BE EXPECTED TO SIT BY INDIFFERENTLY WHILE EUROPEAN GOVERNMENTS TAKE STEPS TO OFFSET THE COMPARATIVE ADVANTAGE ENJOYED BY US PRIVATE AIRCRAFT MANUFACTURERS. ALTHOUGH THE TWO SIDES REMAIN FAR APART, FURTHER TALKS WILL BE HELD IN PARIS OCTOBER 30-31 WITH THE HOPE OF REACHING AN AGREEMENT BY THE END OF THE YEAR.

3. LNG TANKERS

CONTINUING STRONG EUROPEAN DISPLEASURE AT OUR ACTION IN OFFERING 15 YEAR TERMS FOR THE ALGERIAN LNG TANKERS WAS FORCEFULLY REITERATED. THE EUROPEANS REPEATED THEIR POSITION THAT (FOR THE US) SHIPS ARE COVERED BY THE PRESENT ARRANGEMENT. THEY NOTED THAT THE ARRANGEMENT CALLS FOR CONTINUING EFFORTS TO ARRIVE AT COMMON PROVISIONS FOR ALL SHIPS, AND REGRETTED THAT THE US HAD ACTED AS IT DID ON THE ALGERIAN TANKERS WHILE THESE EFFORTS WERE SUPPOSED TO BE UNDER WAY. THEY POINTED OUT THAT NO COMPETITOR HAD OFFERED TERMS OF MORE THAN SEVEN YEARS (ALTHOUGH THE FRENCH SAID AT THE MEETING THEY MIGHT MATCH OUR 15 YEARS). THEY

NOTED THAT OUR ACTION WOULD BE A VERY EXPENSIVE ONE FOR THE US. IN CLOSING, THEY ASKED US TO RECONSIDER OUR DECISION AND BRING OUR OFFER MORE IN LINE WITH ACCEPTED NORMS. THE US SAID WE REALLY HAD NOTHING MUCH TO SAY ON THE SUBJECT AT THIS TIME--THIS ELICITED A FURTHER EXPRESSION OF DISAPPOINTMENT FROM THE EUROPEANS--BUT THAT WE ARE WILLING TO CONTINUE THE DISCUSSIONS. WE EXPLAINED THAT IN OUR VIEW THE CASH FLOW CHARACTERISTICS OF THIS TRANSACTION JUSTIFIED THE 15 YEAR TERMS. WE AGREED TO DISCUSS THE ISSUE FURTHER WITH THE EUROPEANS IN OCTOBER.

4. TERRORISM

EXIM SUGGESTED THAT, IN VIEW OF THE SUMMIT DECISION TO TAKE LIMITED OFFICIAL USE

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PAGE 04 STATE 207724

ANTITERRORIST ACTION, CONSIDERATION BE GIVEN TO AGREEMENT WITHIN THE ARRANGEMENT TO DENYING ALL OFFICIAL EXPORT CREDITS TO COUNTRIES HARBORING TERRORISTS. THE EUROPEANS REACTED NEGATIVELY TO THIS PROPOSAL. THEY SAID THAT WHILE THEY WOULD, OF COURSE, BE WILLING TO IMPLEMENT POLICY DECISIONS TAKEN BY THEIR POLITICAL MASTERS, THEY THOUGHT IT INAPPROPRIATE TO TAKE THE INITIATIVE TO INTRODUCE POLITICAL CONSIDERATIONS INTO ARRANGEMENT DISCUSSIONS. IN RESPONSE TO A EUROPEAN QUERY WHETHER THIS SUGGESTION WAS A USG PROPOSAL, EXIM REPLIED THAT IT WAS NOT; RATHER, IT WAS AT THIS TIME ONLY AN EXIM IDEA.

5. OCTOBER REVIEW SESSION

THE EUROPEANS CALLED ATTENTION TO PARAGRAPH 13 OF THE ARRANGEMENT, WHICH SETS THE FRAMEWORK FOR THE REVIEW TO BE HELD THE WEEK OF OCTOBER 23. THAT PARAGRAPH STATES IN PART THAT "THE OPERATIONS IN PRACTICE OF THESE GUIDELINES" ARE TO BE REVIEWED AT LEAST ANNUALLY. THE OCTOBER SESSION IS NOT TO BE A RENEGOTIATION, IN THE EUROPEAN VIEW. THE US RESPONDED THAT WE HAD SAID AT THE TIME OF AGREEING TO THE ARRANGEMENT THAT IT WAS SUBSTANTIVELY INADEQUATE AND THAT WE FEEL IT IS VERY IMPORTANT TO IMPROVE FURTHER THE ARRANGEMENT.

6. LDC PARTICIPATION

THE EUROPEANS APPEAR WILLING TO INVITE THE BRAZILIANS AND THE KOREANS TO A SIDE MEETING HELD AT THE TIME OF THE OCTOBER REVIEW SESSION. INTERESTED PARTICIPANTS IN THE ARRANGEMENT WOULD ALSO ATTEND. THE PARTICIPANTS WOULD EXPLAIN THE ARRANGEMENT AND THEIR EXPERIENCES UNDER IT AND LIMITED OFFICIAL USE

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PAGE 05 STATE 207724

QUESTIONS WOULD BE PUT TO THE GUESTS REGARDING THEIR PRACTICES. ALL UNDERSTAND THAT THE GUESTS WOULD NOT BE INVITED TO ATTEND THE PLENARY SESSIONS OF THE PARTICIPANTS. (WE DON'T YET KNOW WHETHER THE BRAZILIANS OR KOREANS WILL BE WILLING TO ATTEND UNDER THESE CONDITIONS.)

7. OUTLOOK

FEELINGS CLEARLY RUN DEEP ON BOTH THE AIRCRAFT AND LNG TANKER QUESTIONS. BOTH ISSUES HAVE STRONG POLITICAL OVERTONES AND PROGRESS IN THESE AREAS IS LIKELY TO BE ESPECIALLY DIFFICULT. SIMILARLY, THE DIFFERING PERCEPTIONS OF THE US AND THE EC ABOUT THE NATURE OF THE OCTOBER REVIEW SESSION AND WHETHER THE ARRANGEMENT IS TO BE RENEGOTIATED INDICATE DIFFICULTY OF ACCOMPLISHING OUR GOAL OF A SUBSTANTIAL IMPROVEMENT. SECRETARY BLUMENTHAL PROPOSES TO

SEND HIS LETTER TO FINANCE MINISTERS AND THEN TO INITIATE DISCUSSIONS WITH HIS COUNTERPARTS AT THE ANNUAL MEETING OF THE BANK/FUND. BILATERALS WITH THE JAPANESE ARE SCHEDULED FOR EARLY OCTOBER. COMMUNICATIONS WITH THE EC AND MEMBER STATES ON THE TWO SECTORS AND ON RENEGOTIATION WILL CONTINUE FROM NOW UNTIL THE OCTOBER REVIEW AND PROBABLY UNTIL YEAR END.

8. ABOVE INFO IS FOR EMBASSY/MISSION BACKGROUND ONLY. CHRISTOPHER

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